MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BEC1054 – FUNDAMENTALS OF ECONOMICS

(All sections / Groups)

25 OCTOBER 2018
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9)** pages with **TWO** sections only.
   Section A – Forty (40) Multiple Choice Questions
   Section B – Three (3) Short Structured Questions

2. Attempt **ALL** questions in both **Sections A** and **B**. The distribution of the marks for each question is given.

3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

SECTION A (40 marks)

Instructions: This section consists of **FOURTY (40)** questions. Answer **ALL** questions in the OMR sheet provided.

1. Which of the following is NOT a characteristic of a perfectly competitive market structure?
   A) There is a very large number of firms that are small compared to the market.
   B) All firms sell identical products.
   C) There are no restrictions to entry by new firms.
   D) There are restrictions on the exit of firms.

2. In a graph that illustrates a perfectly competitive firm, marginal revenue is
   A) a diagonal line that lies below the firm's demand curve.
   B) a line that intersects the firm's demand curve from below at its lowest point.
   C) a line that intersects the firm's average total cost curve from below at its lowest point.
   D) the same as the firm's demand curve.

3. Peet's Coffee and Teas produce some flavourful varieties of Peet's brand coffee. Is Peet's a monopoly?
   A) Yes, there are no substitutes for Peet's coffee.
   B) No, although Peet's coffee is a special product, there are many different brands of coffee that are very close substitutes.
   C) Yes, Peet's is the only supplier of Peet's coffee in a market where there are high barriers to entry.
   D) No, Peet's is not a monopoly because there are many branches of Peet's.

4. Which of the following statements applies to a monopolist but NOT to a perfectly competitive firm at their profit-maximising outputs?
   A) Marginal revenue is less than price.
   B) Marginal revenue equals marginal cost.
   C) Price equals marginal cost.
   D) Average revenue equals average cost.

5. The reason that the coffeehouse market is monopolistic competitive rather than perfectly competitive is that
   A) barriers to entry are very low.
   B) there are many firms in the market.
   C) products are differentiated.
   D) entry into the market is blocked.

Continued...

6. The profit-maximising level of output and the profit-maximising price for an oligopolist cannot be calculated when we don't know
   A) what the concentration ratio for the oligopolist's industry is.
   B) what the minimum efficient scale in the oligopolist's industry is.
   C) the demand curve and the marginal revenue curve of the oligopolist.
   D) the type of barrier to entry that exists in the oligopolist's industry.

7. An oligopolist differs from a perfect competitor in that
   A) there is cutthroat competition in perfect competition but little competition in oligopoly because firms have significant market power.
   B) firms in an oligopoly do not produce homogeneous products while firms in perfect competition do.
   C) the market demand curve for a perfectly competitive industry is perfectly elastic but it is downward sloping in an oligopolistic industry.
   D) there are no entry barriers in perfect competition but there are entry barriers in oligopoly.

8. What is the profit-maximising rule for a monopolistic competitive firm?
   A) To produce a quantity that maximises market share.
   B) To produce a quantity that maximises total revenue.
   C) To produce a quantity such that marginal revenue equals marginal cost.
   D) To produce a quantity such that price equals marginal cost.

9. Gross domestic product in the economy is measured by the
   A) total number of goods and services produced in the economy.
   B) market value of all final goods and services produced in the economy.
   C) total number of goods produced in the economy.
   D) total number of services produced in the economy.

10. An example of an 'intermediate good' would be
   A) the bread that goes into a sandwich sold by a lunch bar.
   B) a can of cool drink sold by a supermarket.
   C) a microwave oven used at home.
   D) the petrol purchased by consumers for their cars.

11. Scott is a woodworker and charges RM125 an hour for his time manufacturing custom-made wood products. For his wife's birthday, he designs and creates an intricate birds-eye maple jewellery box that takes him 15 hours to complete. By how much and in what direction does GDP change as a result of his efforts?
   A) GDP rises by RM1875.
   B) GDP is not affected by Scott's production of the jewellery box.
   C) GDP rises by RM125.
   D) GDP falls by RM1875.

Continued...

12. The measure of production that values output using a base year is called
A) value-added GDP.
B) nominal GDP.
C) real GDP.
D) underground GDP.

13. Because of the slope of the aggregate demand curve, we can say that
A) a decrease in the price level leads to a lower level of aggregate spending.
B) a decrease in the price level leads to a higher level of aggregate supply.
C) a decrease in the price level leads to a higher level of aggregate spending.
D) an increase in the price level leads to a higher level of aggregate spending.

14. The interest-rate effect is described as an increase in the price level which
A) raises the interest rate, thereby reducing government spending.
B) lowers the interest rate, thereby reducing government spending.
C) raises the interest rate, thereby reducing investment and consumption spending.
D) lowers the interest rate, thereby reducing investment and consumption spending.

15. If more workers leave Australia to seek out better opportunities in another country than new workers arriving in Australia, then this will
A) shift the short-run aggregate supply curve of Australia to the left.
B) shift the short-run aggregate supply curve of Australia to the right.
C) move the Australian economy up along a stationary short-run aggregate supply curve.
D) move the Australian economy down along a stationary short-run aggregate supply curve.

16. The liquidity property of money is the property that makes money
A) a good store of value and a good unit of account.
B) a good medium of exchange and a good store of value.
C) a good medium of exchange and a good unit of account.
D) a good store of value and a good standard of deferred payment.

17. If Thrifty Bank receives a RM10,000 deposit and keeps 10 per cent of its deposits in reserve, how much will the bank loan out?
A) RM10,000.
B) RM1,000.
C) RM9,000.
D) RM11,000.

18. If the reserve ratio is 0.05, then the simple deposit multiplier is
A) 10.
B) 5.
C) 2.
D) 20.

Continued...

19. The _____ the reserve ratio, the _____ the simple deposit multiplier.
A) smaller; smaller
B) smaller; larger
C) larger; larger
D) smaller; greater likelihood there is no change in

20. If the interest rate increases, then
A) there will be an upward movement along the money demand curve.
B) there will be a downward movement along the money demand curve.
C) the money demand curve will shift to the right.
D) the money demand curve will shift to the left.

21. If Malaysia's central bank sells bonds and securities in the open market, this is likely to lead to a
A) rise in interest rates and an appreciation of the Malaysia Ringgit.
B) rise in interest rates and a depreciation of the Malaysia Ringgit.
C) fall in interest rates and an appreciation of the Malaysia Ringgit.
D) fall in interest rates and a depreciation of the Malaysia Ringgit.

22. If the Reserve Bank of Australia pursues expansionary monetary policy, ceteris paribus, aggregate demand will
A) rise, and the price level will rise.
B) fall, and the price level will fall.
C) rise, and the price level will fall.
D) fall, and the price level will rise.

23. To help fight a recession, the government could
A) decrease government spending.
B) decrease taxes.
C) increase interest rates.
D) sell bonds.

24. Which of the following is considered expansionary fiscal policy?
A) The government decreases the income tax rate.
B) The government decreases defence spending due to a change in priorities.
C) Legislation that increases education expense deductions from federal income taxes.
D) The government cuts highway spending to balance its budget.

25. Expansionary fiscal policy _____ the price level and _____ equilibrium real GDP.
A) decreases; increases
B) increases; decreases
C) increases; increases
D) decreases; decreases

Continued...

26. The unemployment rate is the
A) percentage of the labour force receiving unemployment benefits.
B) percentage of the population that is unemployed.
C) percentage of the working-age population that is unemployed.
D) percentage of the labour force that is unemployed.

27. People who lost their jobs as hand-drawn animators because of the popularity of computer-generated 3D animation are examples of people who are experiencing
A) frictional unemployment.
B) structural unemployment.
C) cyclical unemployment.
D) seasonal unemployment.

28. Cyclical unemployment is defined as unemployment that
A) is due to changes in the structure of an economy.
B) is due to an economic contraction or recession.
C) occurs when people are searching for their first job.
D) occurs when people become discouraged and stop looking for work.

29. Refer to the table below:

Year	CPI (1990 = 100)
2013	175
2014	180

What is the inflation rate between 2013 and 2014?
A) 5 per cent
B) 2.9 per cent
C) 4.6 per cent
D) 7.5 per cent

30. Inflation is an increase in the
A) overall level of economic activity.
B) rate of growth of GDP.
C) average hourly wage rate.
D) general price level in the economy.

31. If nominal wages rise slower than the price level, then real wages have _____ and the purchasing power of income has _____.
A) fallen; fallen
B) fallen; risen
C) risen; risen
D) risen; fallen

Continued...

32. What could be the main reason some countries producing output above and beyond their production possibilities frontier (PPF) in the short run?
A) Acquire new capital.
B) Discover new land.
C) Hire foreign labours.
D) Using the available technology more efficiently.

33. Economic growth causes a country's PPF to_____.
A) shifts outward
B) shifts inward
C) remain unchanged
D) change its shape

34. From the neoclassic growth theory, which of the following is the most important factor for economic growth?
A) Technological progress.
B) Larger workforce.
C) Increase in the quantity of capital.
D) Government policies.

35. _____ is the ability of an individual, a firm, or a country to produce a good or service at a lower opportunity cost than competitors.
A) Absolute advantage
B) Specialisation
C) Autarky
D) Comparative advantage

36. Refer to the table below:

	Candles	**Soap**
Bryce	150	450
Tina	200	450

Bryce and Tina are artisans who produce homemade candles and soap. The table above lists the number of candles and bars of soap Bryce and Tina can each produce in one month. Which of the following is correct?
A) Tina has a comparative advantage in making soap.
B) Bryce has a comparative advantage in making soap.
C) Tina has a comparative advantage in making candles and making soap.
D) Neither Bryce nor Tina has a comparative advantage in making soap.

Continued...

37. Which of the following is the best example of a tariff?
A) A subsidy from the government to domestic manufacturers of residential air conditioners to enable them to compete more effectively with foreign producers.
B) A limit on the number of residential air conditioners that can be imported from a foreign country.
C) A RM150 fee imposed on all imported residential air conditioners.
D) A tax placed on all residential air conditioners sold in the domestic market to help offset the impact of emissions on the environment.

38. A trade deficit indicates that a
A) country imports more than it exports.
B) country imports less than it exports.
C) country's imports equal its exports.
D) country's trade has decreased on average.

39. An excess supply of the Ringgit in exchange for yen will cause
A) no change in the exchange rate of the yen to the Ringgit.
B) the Ringgit to appreciate relative to the yen.
C) the yen to depreciate against all major currencies.
D) the Ringgit to decline in value relative to the yen.

40. Assume that the exchange rate between the Australian dollar and the euro is €0.60 = 1 Australian Dollar. Suppose the exchange rate changes to €0.50 = 1 Australian Dollar. Because of the change
A) Australian exports should increase and Australian imports should increase.
B) Australian exports should decrease and Australian imports should increase.
C) Australian exports should increase and Australian imports should decrease.
D) Australian exports should decrease and Australian imports should decrease.

Continued...

SECTION B (60 marks)

Instruction: This section contains three questions with sub-questions. Answer **ALL** of the questions.

Question 1

(a) Present the differences between perfect competition and monopoly regarding the profit maximising quantity with the aid of demand curve and marginal revenue curve. (10 marks)

(b) Analyse how government can fight against inflation with the fiscal policy by using the aggregate demand and aggregate supply curves. (10 marks)

[Total: 20 marks]

Question 2

(a) Given the following information for a nation:

Status	Number in population
Total population	100,000,000
Working-age population	70,000,000
Unemployed	10,000,000
Employed	40,000,000

Estimate the labour force participation rate and unemployment rate based on the table above. Please include all the necessary calculation in your answer.

(5 marks)

(b) Given the following information for a nation:

Year	Nominal GDP (RM)	Real GDP RM)
2011	5,000,000	4,500,000
2012	5,500,000	4,800,000
2013	6,000,000	5,200,000

Estimate the GDP deflator for each year, the inflation rate and real economic growth rate for the year 2012 and 2013. Please include all the necessary calculation in your answer. (10 marks)

(c) Individual deposits RM500 into the Bank A. Assume that the bank holds not more than the required reserve of RM50. Estimate the change of the money supply in the market following the mentioned deposit of RM500. Please include all the necessary calculation in your answer. (5 marks)

[Total: 20 marks]

Continued...

Question 3

(a) Analyse how Malaysian Ringgit will be affected by the following events:

(i) Malaysia interest rate is higher

(ii) China, the major trading partner of Malaysia, is experienced rapid growth in their economy.

(6 marks)

(b) Explain the term "frictional unemployment". (4 marks)

(c) Explain how money supply in an economy will be affected if some households did not deposit all the money in the bank. (4 marks)

(d) Differentiate between "absolute advantage" and "comparative advantage" with an example. (6 marks)

[Total: 20 marks]

End of Page